

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: [REDACTED]

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Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(4) of the Internal Revenue Code.

The information submitted indicates that your organization was incorporated on [REDACTED] under the laws of the State of [REDACTED], for the purpose of promoting social welfare by controlling the rising cost of health care, improving the accessibility of care to consumers, and improving the quality of care.

Your organization's primary activity is providing physician services to subscribers of [REDACTED], a non-profit corporation. Your organization and the Health Plan share interlocking directorates, with your Board of Directors composing the corporate membership of [REDACTED]. Your Executive Director is also the President of [REDACTED].

Your organization is a component part of [REDACTED] as defined in the federal Health Maintenance Organization Act of 1973, P.L. 9322, as amended. [REDACTED] determines the benefit package and cost, and your organization delivers the services of health care professionals. [REDACTED] collects monthly capitation fees from subscribers, then pays your organization a monthly sum to cover the costs of care that you provide.

Your member doctors are paid at [REDACTED]% of their regular fee schedule. If they provide emergency care, they are compensated on a fee-for-service basis. If [REDACTED] revenues are insufficient to compensate your members for the services they provide, your members have no recourse and must bear the loss.

Your organization plans and conducts systematic peer review, and provides continuing education for member physicians. You maintain at least one full-time doctor for every [REDACTED] members of [REDACTED].

Section 501(c)(4) of the Code provides for the exemption from federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(4)-1(a)(2)(i) of the Regulations provides that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the community. An organization embraced within this section is one that is operated primarily for the purpose of bringing about civic betterment and social improvements.

Revenue Ruling 86-98, 1986-2 C.B. 74, holds that an individual practice organization providing health services through written agreements with health maintenance organizations does not qualify for exemption from federal income tax as a social welfare organization under section 501(c)(4) of the Code. The Rev. Rul. states that the individual practice association "operates in a manner similar to organizations carried on for profit, and its primary beneficiaries are its member-physicians rather than the community as a whole."

Your main function is to provide your members with access to a large group of patients (the [redacted] subscribers). Also, while your member physicians provide medical care at slightly below their individual regular fee schedules, they are apparently free to set that schedule at any price they choose. Therefore, under Rev. Rul. 86-98, you do not qualify for exemption under section 501(c)(4) because you are an individual practice organization providing health services to subscribers of a health maintenance organization, and because you primarily benefit member doctors rather than the community.

Accordingly, we conclude that you do not qualify for recognition of exemption from federal income tax under section 501(c)(4) of the Code. Therefore, you are required to file federal income tax returns.

You have the right to protest our ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who

[REDACTED]

is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District Director. Thereafter, if you have any questions about your federal income tax status, including questions concerning reporting requirements, please contact your key District Director.

When submitting additional letters with respect to this case to the Internal Revenue Service, you will expedite their receipt by placing the following symbols on the envelope: [REDACTED] [REDACTED] [REDACTED] These symbols do not refer to your case but rather to its location.

Sincerely yours,

[REDACTED]
[REDACTED]
Chief, Exempt Organizations
Rulings Branch